

**Federal Deposit Insurance Corporation (FDIC)****Borrowing Basics**

Use this tip sheet to review the methods in applying for credit, and to improve your skills in credit, credit services, and products. This tip sheet covers the following topics:



- Determining your available collateral
- Comparing loans based on type, cost and fees
- Applying for a loan
- Ensuring that you are not discriminated against
- What to do if you are turned down for a loan.

**Tip #1:****Determine Your Available Collateral**

To obtain and to secure a loan, collateral is what you promise to give to the bank if you do not pay back the loan. The following items can be used as collateral to obtain a loan:

- ☐ A home
- ☐ A car
- ☐ A savings account
- ☐ Investments, like a 401K or other individual retirement account (IRA)

The following items cannot be used as collateral:

- ☐ Furniture
- ☐ Clothing
- ☐ Family china
- ☐ Store credit cards

Household goods that you already own cannot be used as collateral. However, items you are purchasing on credit and do not own yet can be considered collateral.

**Tip #2:****Compare Loans Based on Type, Cost, and Fee**

Use this checklist to compare loans for your needs:

<b>Consumer installment loan →</b>	<u>Auto loan</u>	<u>Personal loan Computer</u>	<u>Personal loan Furniture</u>
Will I be charged a maintenance fee?			
Is there a service charge?			
Are there late fees?			
Is the interest rate variable?			
Is the interest rate fixed?			

<b>Credit card →</b>	<u>Department store</u>	<u>Gasoline</u>	<u>Other</u>
Will I be charged a maintenance fee?			
Is there a service charge?			
Are there late fees?			
Is the interest rate variable?			
Is the interest rate fixed?			

<b>Home loan→</b>	<u>Home purchase</u>	<u>Home refinancing</u>	<u>Home equity</u>
Will I be charged a maintenance fee?			
Is there a service charge?			
Are there late fees?			
Is the interest rate variable?			
Is the interest rate fixed?			

**Tip #3:****Apply for a Loan**

When you apply for credit, your lender will review three main factors to decide whether you are a good credit risk and if you will be able to pay back the loan. These factors are called the Three Cs.

<b>The Three Cs:</b>	<b>What does this mean?</b>	<b>Questions you may be asked from the lender</b>	<b>Why is this important to me?</b>
Capacity	Your present and future ability to meet your payments.	<ul style="list-style-type: none"> <li><input type="checkbox"/> How long have you been in your job?</li> <li><input type="checkbox"/> How much money do you make each month?</li> <li><input type="checkbox"/> What are your monthly expenses?</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Your lender would like to see that you have held the same job, or same type of job, for at least a year.</li> <li><input type="checkbox"/> Your bank will compare the amount you owe and your other monthly expenses to your income.</li> </ul>
Capital	Your savings and other assets, which can be used as collateral for loans.	<ul style="list-style-type: none"> <li><input type="checkbox"/> How much money do you have in checking and savings accounts?</li> <li><input type="checkbox"/> Do you own a house?</li> <li><input type="checkbox"/> Do you have investments or other assets?</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Lenders want to determine the total value of your assets. Assets are things of financial value that you own.</li> <li><input type="checkbox"/> A positive net worth demonstrates your ability to manage your money.</li> </ul>
Character	How well you have paid your bills or debts in the past.	<ul style="list-style-type: none"> <li><input type="checkbox"/> Have you had credit in the past?</li> <li><input type="checkbox"/> How many credit accounts do you have?</li> <li><input type="checkbox"/> Have you ever been denied credit?</li> <li><input type="checkbox"/> Have you ever filed for bankruptcy?</li> <li><input type="checkbox"/> Have you had any outstanding judgments, property repossessed or foreclosed upon?</li> <li><input type="checkbox"/> Have you ever made late payments?</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> If you have a good history of repaying your other loans, you will have an easier time getting a loan.</li> <li><input type="checkbox"/> Having a good credit history shows a lender you can borrow money responsibly.</li> <li><input type="checkbox"/> If you answer yes to any of these questions, you will have more difficulty getting approved for a loan. However, some lenders will ask you to explain what happened. Depending on your situation, a lender might be willing to approve your loan request.</li> </ul>

**Tip #4:**

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**Obtain Your Credit Report to Verify It is Correct**

Banks use credit reports to determine your ability to pay your bills. You can request a copy of your credit report by contacting any of the top three credit reporting agencies. Most times it is easier to call for your credit report instead of writing.

<b>Step</b>	<b>I need to contact</b>	<b>The contact information is</b>
□ 1	Equifax	Equifax, Inc. PO Box 10525 Atlanta, GA 30348-5252 <b>1-800-997-2493</b> <b>www.equifax.com</b>
□ 2	Experian	Experian PO Box 2002 Allen, TX 75013 <b>1-888-397-3742</b> <b>www.experian.com/consumer/index.html</b>
□ 3	TransUnion	TransUnion PO Box 1000 Chester, PA 19022 <b>1-800-888-4213</b> <b>www.transunion.com</b>

**Tip #4:****What to Do If You Are Turned Down for a Loan**

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Use this table to identify what you can do to improve your credit when you have been turned down for a loan:

**What to Do**

- ❑ Pay off your entire bill each month. If you can't, try to pay more than the minimum balance due. This will reduce finance charges and total interest paid.
- ❑ Pay on time to avoid late fees and to protect your credit. If you cannot pay on time, call your creditor(s) immediately to explain the situation. They may waive late fees or be willing to make different payment arrangements
- ❑ Always check your monthly statement to verify transactions. Call your creditor(s) right away if you see errors in my statement.
- ❑ Ignore offers that creditors may send you to "reduce" or "skip" payments. You will still be charged finance charges during these "free" periods.
- ❑ Think about the cost difference if you purchase desired items with cash versus if you purchase them with credit: For example, if you purchase a \$500 stereo with a credit card with a 20% APR, it will cost \$1,084 and take 9 years to pay off if you only pay the \$10 minimum monthly payments.